

MARKET ENTRY CHALLENGES OF (SOUTH-EAST) ASIAN COMPANIES IN EUROPE: LESSONS LEARNED *PUBLIC SUMMARY*

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Study background and approach

Companies from (South-East) Asia increasingly internationalize to various countries within Europe. As identified by Eurostat, export to the European Union (EU) from ASEAN has increased to €93.3 billion, up from €75.4 billion in 2000. FDI from ASEAN to Europe reached €9.1 billion in 2010. Taking advantage of these bilateral trade flows, however, is challenging. Prime examples of difficulties faced in Europe by large Asian companies are the acquisition of parts of Thomson by TCL (China), having to undergo heavy losses over an extended period, or Creative Technology's (Singapore) failed attempt to gain a strong foothold in Europe. This has prompted academics and politicians alike to focus on explaining difficulties and providing support to Asian companies with international ambitions towards Europe.

This study aims at providing a framework and specific insights to avoid the pitfalls that other Asian companies in Europe have encountered. **In close cooperation with 46 practitioners from various countries and industries in (South-East) Asia**, important challenges (critical incidents) along the market entry processes of Asian companies internationalizing to Europe have been identified and assessed. In doing so, a) the most important challenges for eventual market entry success are identified and b) the complexity of addressing the critical incidents is assessed through preventing or solving these challenges. Recommendations to overcome the challenges by experienced practitioners are provided.

Take-Aways

- 12 challenges are identified as crucial for internationalization success, divided into distinct internationalisation stages (see illustration); characteristics of decision makers, strategic considerations and operational considerations. Furthermore, two challenges are seen to influence all stages of internationalization.

*Study based on the **critical incident methodology**, analyzing **12 crucial situations** along the market entry path into Europe **with 46 Senior Executives** from Asia.*

*"Firms tend to have **too high expectations**. They want overnight success. Overall though, it is an **investment** and this **requires time**."
(Study Participant)*

*"Currently **Europe** is in a **crisis**, having numerous negative effects on companies – can't we use this as our chance?"
(Study Participant)*

*"Only **exporting without the right local partners** might result in a very poor market penetration due to lack of a strong **distribution network**."
(Study Participant)*



- The decision maker characteristics stage is seen as most important to eventual success, followed by the operational considerations.
- In particular, **the most important challenges** for eventual success in Europe are identified to be:
 - The **initial setting of expectations** concerning European market presence, correctly assessing the true potential in the European market is critical (*decision maker characteristics*).
 - Setting the **right market entry strategy**, fitting both the environment and the risks related to the market entry (*strategic considerations*).
 - Attaining and maintaining **sufficient and capable human resources in Europe** (*operational considerations*).
 - Dealing with higher cost levels in Europe. Assessing all costs before market entry as well as **organizing operations as cost efficient as possible** (*operational considerations*).
- Practitioners rate **the most complex challenges** to address:
 - **Attaining customer interest in Europe** by setting the right marketing strategy (*strategic considerations*).
 - Attaining and maintaining **sufficient human resources in Europe** (*operational considerations*).
 - Challenges related to **contract setting**, ensuring that companies are **protected** from excessive risks (*operational considerations*).
 - **Currency volatility** is important to consider, given the Euro crisis with corresponding effects on profitability and risk management (*institutional environment*).
- Practitioners address their **inability to prevent** negative issues:
 - **Customer reactions** are hard to predict, therefore the effect of the **marketing strategy** is hard to assess (*strategic considerations*).
 - **Selecting customers** that provide **long-term benefits** to the company, not just selecting any customer (*strategic considerations*).
 - The **issues with attracting and retaining human resources** are hard to prevent, given the image of Asian companies in Europe (*operational considerations*).
 - **The higher cost levels in Europe** are evident, companies find it difficult to prevent issues occurring from high cost levels in Europe and are left to **adapt** (*operational considerations*).
- In assessing **institutional factors**, manufacturing companies face tougher market entry challenges than service companies, utilising markedly different strategies to overcome them.
- **Smaller companies are more hampered** by the identified challenges than larger companies, thereby having to pay closer attention to the

*“If doing **adjustments** for each country is **costly**, we might gain back the economy of scale by **focusing on the whole European market**, or seriously **analyze the budget** for how many **adaptations** we can afford.”*
(Study Participant)

*“I would bet on having a **representative on site**, even if not on full-time basis, so that the company would have some **control** over the operation, brand positioning and go-to-market strategy.”*
(Study Participant)

*“Monetary **compensation** is **not** the magical **solution** to avoid turnover, I would develop **solid career development plans**, with appropriate **training** and financial **compensation**.”*
(Study Participant)

potential critical incidents before they enter the European market given the added difficulty to succeed and few available resources.

- Strategies to effectively deal with challenges are identified, used by participants, applicable to a wide-range of business situations.
- Asian companies considering a market entry into Europe have to watch out to avoid or be prepared to react to the 12 challenges identified in the study and summarized in Figure 1.

Figure 1: Market Entry Challenges in Europe – An Asian Perspective



Research Institute for International Management, University of St.Gallen

The Research Institute for International Management at the University of St.Gallen (HSG) is a preferred academic research partner for many Asian companies during their market entry/expansion plans in Europe. Specifically, the University of St.Gallen offers different services during expectation setting, industry/market analysis as well as strategy development including:

- **Coaching** for senior executives in Asia during the market entry process in Europe.
- **Industry intelligence** regarding the future institutional environment for selected industry segments, future investment behaviour of strategic groups, customer segmentation and market potential beyond simple number crunching and data analysis.
- **Intercultural management training** including JV and buyer-supplier relationship development, negotiation tactics and strategies as well as intercultural process design.
- **Co-development of functional strategies** such as branding, distribution or HR with local experts in Europe.
- **Networking and access to local decision makers** in Europe.

*“Team up with a partner having **equal interest** in marketing this product.”*

(Study Participant)

*“There are **different expectations** in the **validity of contracts**. European partners think contracts are **fixed** and the South-East Asian partner thinks everything is **negotiable** after the signature.”*

(Study Participant)

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